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Order Instituting Rulemaking to Oversee  
The Resource Adequacy Program,  
Consider Program Refinements, and  
Establish Annual Local and Flexible  
Procurement Obligations for the 2016 and  
2017 Compliance Years.

**SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E)  
COMMENTS REGARDING STUDY PLAN FOR  
FLEXIBLE CAPACITY REQUIREMENT TOPICS**

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September 23, 2016

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Oversee	)	
The Resource Adequacy Program,	)	
Consider Program Refinements, and	)	Rulemaking 14-10-010
Establish Annual Local and Flexible	)	(Filed October 16, 2014)
Procurement Obligations for the 2016 and	)	
2017 Compliance Years.	)	
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**I.  
INTRODUCTION**

In accordance with the Rules of Practice and Procedure of the California Public Utilities Commission (the “Commission”), and the *Assigned Commissioner and Administrative Law Judge’s Phase 3 Scoping Memo and Ruling* (the “Ruling”) issued in the above-captioned proceeding on September 13, 2016, San Diego Gas & Electric Company (“SDG&E”) submits these comments regarding the study plan for flexible capacity requirement (“FCR”) topics.

The Ruling establishes a proposed scope for Phase 3 of the instant proceeding and sets forth five “Guiding Questions” specifically related to FCRs. The Ruling directs Commission staff and the California Independent System Operator (“ISO”) to provide additional data and analysis relevant to FCRs, and schedules a workshop to discuss FCR and other issues in advance of parties’ Phase 3 comments and proposals. The Guiding Questions, along with the data and analysis described in the Ruling, comprises

a study plan related to FCR issues. SG&E supports the study plan articulated in the Ruling, with the modification described herein, and looks forward to further consideration of these issues through the workshop process.

## **II. DISCUSSION**

The Phase 3 Ruling sets forth five “Guiding Questions” to help focus parties’ discussion of FCRs:

1. Have the current FCRs changed the quality or quantity of resources procured by the LSEs to meet RA requirements since the adoption of these requirements for the 2015 RA year?
2. Have the FCRs changed the overall quantity or quality of resources bidding in to CAISO energy and ancillary services markets (vs. self-scheduling)? Have the FCRs substantially changed the bidding behavior of LSEs and Scheduling Coordinators?
3. What are the characteristics of flexibility that are needed now and over the next five years? For example, does the expected increase in variable energy resources, and potential for increased uncertainty and variability in net-load, change the needed characteristics of flexibility in this time? What specific reliability metrics or goals might not be achieved due to inadequate flexibility? Do the current FCRs address the full spectrum of the electricity system’s flexible needs now and over the next five years?
4. What, if any, characteristics of flexibility are not currently supplied appropriately through the FCR program, other procurement programs, or CAISO energy and ancillary services markets?
5. What, if any, contractual, economic, or structural barriers exist that hamper the ability of existing or planned resources capable of providing flexibility from doing so?

SDG&E agrees that additional discussion regarding the long term durable flexible product is important, and believes that the Guiding Questions above appropriately frame the FCR issues to be addressed in Phase 3. SDG&E intends to actively participate in the

workshop regarding this topic and will provide more detailed analysis in comments submitted after the workshop, but offers the initial comments set forth herein.

**Question 1**

SDG&E notes the current existence of a large surplus of flexible capacity compared to the flexible need. It suspects that the majority of resources secured under long-term contracts with the investor-owned utilities (“IOUs”) provide large amounts of flexible capacity in the months where the flexible needs are highest. Additionally, the absence of an ISO requirement to replace flexible capacity on outage has helped to minimize short and medium term flexible capacity procurement. Therefore, SDG&E imagines that the procurement of short- and medium-term flexible capacity has been minimal. The Commission’s 2016 Resource Adequacy (“RA”) Report may provide useful analysis regarding this preliminary conclusion.

In addition, in considering Question 1, it is important to remain mindful of the fact that future circumstances may be altered by the ISO’s implementation of the Resource Adequacy Availability Incentive Mechanism (“RAAIM”). Under the RAAIM, the ISO will start to penalize flexible capacity on forced outage. In order to lower these penalties, scheduling coordinators for resources may provide substitute capacity in both day-ahead and real-time markets. Similarly, the ISO is considering requiring substitute capacity for planned outages of flexible capacity. Both are expected to be implemented Fall 2016 and Fall 2018, respectively.

## **Question 2**

Question 2 asks whether FCRs have “substantially changed the bidding behavior of [load-serving entities (“LSEs”)] and Scheduling Coordinators.”<sup>1/</sup> SDG&E notes that LSEs cannot bid or self-schedule generation into the ISO markets. It is only the scheduling coordinators (“SCs”) of generators that may bid or self-schedule. While LSEs can be and are, at times, SCs of those generators, it is technically inaccurate to include LSEs in the question since LSE status alone does not permit an entity to bid or self-schedule resources. In other words, an LSE may bid or self-schedule only if it is wearing a “SC hat” so the query set forth in Question 2 is properly articulated as whether FCRs have “substantially changed the bidding behavior of LSEs and Scheduling Coordinators.”

Also, as a sub-set of the query set forth in Question 2, SDG&E believes that it would be helpful to understand which resources continue to *not* bid into ISO markets. This analysis could identify the dispatch levels of long-, medium- and short-start resources and whether a pattern of dispatch has developed over time. In the same market data, Commission staff and the ISO should identify any exceptional dispatch (“ED”) surrounding the ramping hours. Consistent EDs around the same ramping hours may indicate an additional need for certain resources that was not resolved by the capacity products.

## **Questions 3 and 4**

SDG&E strongly recommends that the flexible capacity study include a scenario that considers the impact of regionalization. While the ISO’s five-year Flexible Capacity Assessment (“FCA”) may provide detailed needs, it does not provide a case where PacifiCorp or another Balancing Area Authority (“BAA”) has joined the ISO. Expanding

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<sup>1/</sup> Ruling, p. 4 (emphasis added).

the BAA will change the flexible capacity needs because the ISO system will change. Certain needs that may be apparent in the current FCA may disappear when another BAA joins. Therefore, determining the needs of the system in a vacuum that ignores the potential impact of regionalization will produce flawed, unusable results. Regionalization may cause parties to seek different products in a few years; if the FCA study fails to consider regionalization, it ultimately will not create a durable product.

In addition, SDG&E submits that the Commission and the ISO should consider simplifying the flexible categories by reducing the number of flexible categories. The ISO's Board of Governors approved the Commitment Cost Enhancements Phase 3 initiative changing use-limited resources definitions. Certain Category 3 resources may be able to bid into the ISO markets as Category 1 or 2 but optimized by the ISO's markets based on the use limitations and ISO outage reasons.

SDG&E looks forward to reviewing the data and analysis provided by Commission staff and the ISO for future workshops. SDG&E recommends that the Commission allow for additional workshops to the extent they are necessary in order to identify issues and define solutions.

Respectfully submitted this 23<sup>rd</sup> day of September, 2016.

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